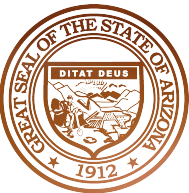


The background of the slide features a large, faint, circular seal of the State of Arizona. The seal contains the text "GREAT SEAL OF THE STATE OF ARIZONA" around the perimeter and "1912" at the bottom. In the center is a shield with various symbols including a sun, a mountain, and a river.

Department of Financial Institutions

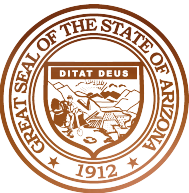
Explanation and Analysis of Fees



Agency Overview

The Department of Financial Institutions (DFI) licenses, supervises, and regulates the following:

- Advance fee loan brokers
- State chartered banks & credit unions
- Collection agencies
- Mortgage companies
- Loan originators
- Consumer lenders
- Motor vehicle dealers
- Sales finance companies



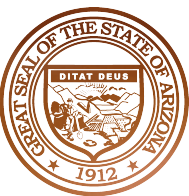
Agency Overview

Fees deposited into the General Fund, expenditures out of an appropriation from the General Fund.

General Fund Net Benefit	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
+ Fee Revenue	5,703.3	4,987.9	4,449.0	4,255.3	4,223.3
+ Fund Transfers				20.7	1,022.1
- Expenditures	(3,882.7)	(3,304.4)	(2,970.2)	(2,794.9)	(2,745.1)
Net Benefit	1,820.6	1,683.5	1,478.8	1,481.1	2,500.3

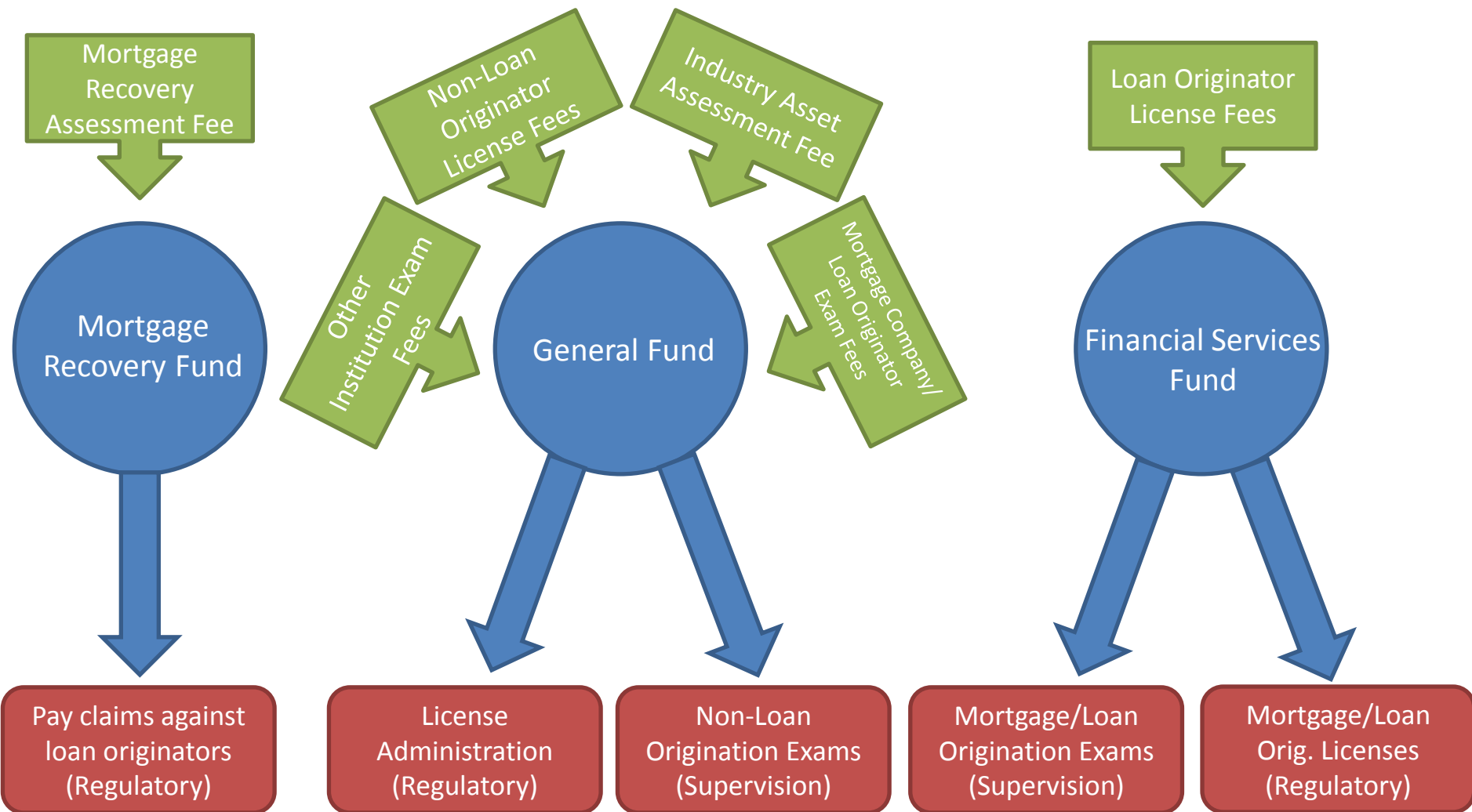
Fees deposited into fee funds, expenditures out of fee funds.

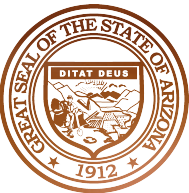
Financial Services Fund	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
+ Fee Revenue	0.0	0.0	1,404.1	1,687.4	1,450.6
- Expenditures	0.0	30.2	0.0	(432.9)	(537.6)
- Fund Transfers				(20.7)	(1,022.1)
Net	0.0	30.2	1,404.1	1,233.8	(109.1)
Mortgage Recovery Fund	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
+ Fee Revenue	0.0	0.0	212.8	362.5	309.4
- Expenditures	0.0	0.0	0.0	0.0	0.0
Net	0.0	0.0	212.8	362.5	309.4



Agency Overview - Financial Institutions

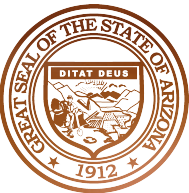
Fee Flow





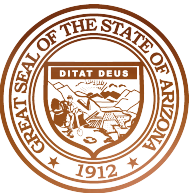
Agency Overview

- Three Main Programs
 - Regulatory Affairs
 - Supervision
 - Receivership (No associated fees)



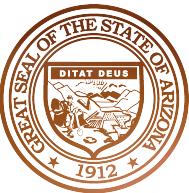
Agency Overview – Regulatory Affairs

The primary functions of regulatory affairs is to license entities, investigate complaints, and promote public awareness of statutory provisions. The program is divided into two units: licensing and consumer affairs.



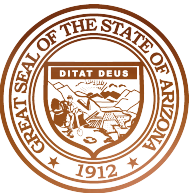
Agency Overview - Supervision

The supervision program relates to examination, supervision, and financial analysis of over 8,500 licensees, and is spread among 18 different types of regulated entities. The program includes formal and informal regulatory enforcement actions to be taken if necessary.



Agency Overview - Receivership

This area is responsible for the management, orderly liquidation, and closure of all receiverships where the Superintendent of DFI has been named by the court as receiver. There are no fees dedicated to this program.

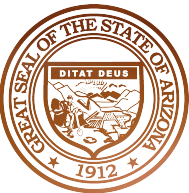


Agency Overview – Program Revenues & Expenditures

Regulatory Program (In Thousands)	FY 2012
+ License Fees (Excludes Loan Originators)	2,753.7
+ Loan Originator License Fees	1,450.6
+ Mortgage Recovery Assessment Fee	309.4
+ Other Revenue	104.5
- Expenditures	(1,485.7)
Difference	3,132.4

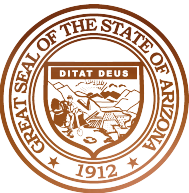
Supervision Program (In Thousands)	FY 2012
+ Examination Fees	511.4
+ Assessment Fees	958.2
+ Other Revenue (Civil Money Penalties)	694.6
- Expenditures*	(2,195.7)
Difference	(31.4)

*Excludes \$526.1 transfer out to Receivership Revolving Fund.



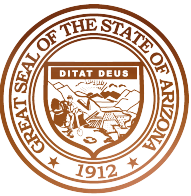
Fee Inventory Overview

- 108 Different Fees
- Types of Fees:
 - Mortgage recovery assessment fees
 - New license and renewal fees
 - Assessment fee on industry assets
 - Hourly examination fees
 - Misc. fees relating to name and address changes
- FY 2012 Total Fee Revenue By Fund
 - General Fund: \$4.2 million
 - Financial Services Fund: \$1.5 million
 - Mortgage Recovery Fund: \$309 thousand
- FY 2012 Total Fee Revenue By Program
 - Regulatory Affairs: \$4.5 million
 - Supervision: \$1.5 million
- Most of DFI's fees were last changed and/or first established prior to 1994. Therefore the history and method of setting these fees is not readily available.



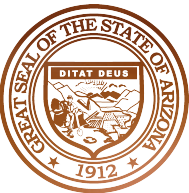
Mortgage Recovery Assessment Fee – Regulatory Program

- Revenues consist of assessments levied by the Superintendent on licensed loan originators if the balance of the Mortgage Recovery Fund falls below \$2M at the end of the fiscal year.
- Loan originators have an option of placing a surety bond or contributing to the Mortgage Recovery Fund.
- The Fund provides relief to persons or parties who have suffered an out-of-pocket losses from a fraudulent mortgage transaction.



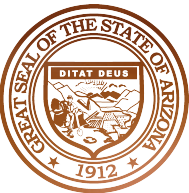
Mortgage Licensee Definitions

- Mortgage banker – fund loan from their own resources.
- Mortgage broker – broker finds a lender to fund a loan.
- Mortgage loan originator/officer – must be employed under a banker or a broker.



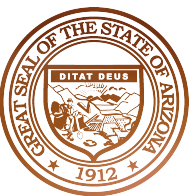
Licensing Fees Methodology – Regulatory Program

- Licensing fees are dedicated to the regulatory affairs program.
- Most fees are set by statute. However, loan originator fees are determined by the Superintendent through rule.
- Fees need to be in an amount that allows the Financial Services Fund to be self-sufficient.



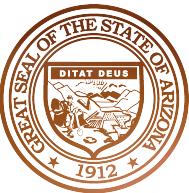
Licensing Fees Sustainability – Regulatory Program

- Loan Originator licensees increased from 1,000 to 6,000 after a new loan originator program went into effect on July 1, 2010.
- Fees are used to support licensing staff and to pay 5 mortgage/loan originator examiners.
- 50% reduction in licensing staff due to budget cuts, from 6 to 3 customer service representatives.
- \$1.5M of loan originator fees are deposited into the Financial Services Fund.
- \$2.8M of licensing fees are washed through the General Fund, or fill shortfalls in the Supervision program.



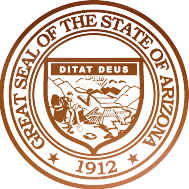
Licensing Fees Comparison – Regulatory Program

	2007 State Fee Comparison Selected Data					
	Arizona	California	Colorado	Nevada	New Mexico	Utah
State Chartered Banks New Application	10,000	5,000	12,000	4,800	7,500	2,500
Consumer Lender New Application	1,500		400	750	1,500	25
Consumer Lender Renewal	1,000		300	750	500 Min.	25 Min.
Escrow New Applications	1,500	625			400	200
Escrow Renewals	1,000	2,800			200	200
Mortgage Banker New Applications	1,500	1,000	200		400	200
Mortgage Banker Renewal	750 or 1,250	1,000-5,000	TBD		300	139 or 253
Mortgage Broker New Application	800		200		400	200
Mortgage Broker Renewal	250 or 500		TBD		300	139 or 253



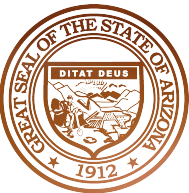
Assessment Fee on Industry Assets Methodology – Supervision Program

- Banks and Credit Unions pay an annual assessment based on their total assets.
- DFI's FY 2011 assessment rates were 41% of the National Credit Union Administration charged to Federal Credit Unions and 30% of the Office of the Comptroller of Currency charged to National banks.
- Rates have not been raised in the last decade.



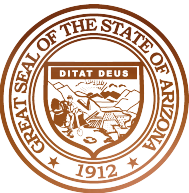
Assessment Fee on Industry Assets Methodology – Supervision Program

Assessment Rate by Total Assets						
Total Assets			Base fee	Plus	Additional excess fee	On Amounts Over
>= \$900,000,000			\$67,786		0.0056%	\$900,000,000
>= \$200,000,000	and	< \$900,000,000	\$20,914		0.0067%	\$200,000,000
>= \$85,000,000	and	< \$200,000,000	\$11,848		0.0079%	\$85,000,000
>= \$20,000,000	and	< \$85,000,000	\$4,477		0.0113%	\$20,000,000
>= \$5,000,000	and	< \$20,000,000	\$2,322		0.0144%	\$5,000,000
>= \$1,000,000	and	< \$5,000,000	\$1,120		0.0385%	\$1,000,000
>= \$500,000	and	< \$1,000,000	\$729		0.0717%	\$500,000



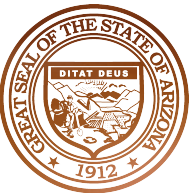
Assessment Fee on Industry Assets Sustainability – Supervision Program

- Industry asset fees are dedicated to the supervision program.
- Fees support 10 bank and credit examiners who do not charge examination fees plus 1 division manager.
- Assessment fees were deposited into the General Fund in the amount of \$958K in FY 2012.
- The cost to the General Fund of supporting 10 bank and credit examiners plus 1 division manager was \$946K in FY 2013. (Inclusive of 3 new examiners)
- The addition of 3 new bank and credit union examiners in FY 13 will add \$200K in new expenses to the supervision program.



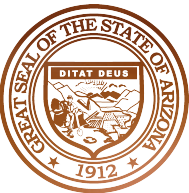
Assessment Fee on Industry Assets Sustainability – Supervision Program

- DFI's accreditation with the Conference of State Bank Supervisors (CSBS) and the National Association of State Credit Union Supervisors (NASCUS) was suspended because DFI was unable to meet acceptable exam frequency guidelines.
- DFI's goal for independent or joint examinations led by DFI is 100% for credit unions and 50% for banks. As of FY 2011, DFI has a combined rate of 22% for independent or joint examinations led by DFI, considerably lower than industry standards.



Examination Fees Methodology – Supervision Program

- Fee increased to \$65 per hour on October 2007, the maximum allowed by statute.
- Billable hours goal per examiner per year is 1,040 at a rate of \$65 per hour, equals \$67,600 in revenue.
- Average examiner cost is approximately \$71,500 (assumes \$55,000 + 30% ERE).

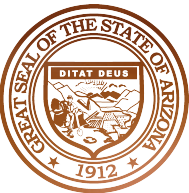


Examination Fees Methodology - Supervision Program

Arizona Department of Financial Institutions Financial Enterprises Examiners Non-Billable Activities/Time

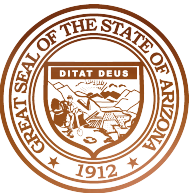
The Department's historical goal for billable hours is 50% of an Enterprise Examiner's annual work hours. Activities that take place that are not part of an examiner's 50% billable hours are as follows:

- 1) Participating in conference calls
- 2) Fielding inquiries from the Attorney General's Office
- 3) Providing assistance to Consumer Affairs
- 4) Providing assistance to Licensing and LO Licensing
- 5) Several examiners provide assistance to bilingual consumers
- 6) Monitoring and researching changes in state and federal laws
- 7) Responding to emails and phone calls
- 8) Reviewing examination responses and contacting licensee throughout the completion of the response process
- 9) Follow-up with licensees to collect monies due the Department and send correspondence as necessary
- 10) Prepare for Informal Settlement Conferences and Hearings with Assistant Attorney General
- 11) Meet with division manager weekly to discuss schedule, obtain training and advice and receive assignments, as necessary
- 12) Respond to inquiries from division secretary regarding various reports and the work necessary to get them accurate
- 13) Set up travel arrangements for examinations
- 14) Travel time (in-state)
- 15) Preparation of expense reports, time sheets and other misc. administrative activities
- 16) Leave time (annual, sick, holiday)
- 17) IT issues
- 18) Training



Examination Fees Sustainability – Supervision Program

- All examiners charge examination fees except for bank and credit union examiners who are supported by industry assessment fees.
- \$511K of examination fees are deposited into General Fund.
- Each examiner covers 95% of their cost with examination fees.
- Prior to FY 2009 DFI had 32 filled examiner positions, the number is now 22.

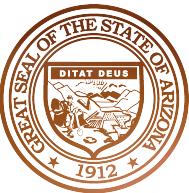


Conclusions

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Difference	(31.4)

*Excludes \$526.1 transfer out to Receivership Revolving Fund.



Conclusions

- The regulatory program, supported by licensing fees, generates large surpluses that wash through the General Fund.
- Changes in market conditions and past budget cuts have continued to place upward pressure on expenditures.
- The supervision program was only made whole in FY 2012 from civil money penalties which are not a stable source of revenue.